

DG 01-021

ENERGYNORTH NATURAL GAS, INC.

Revised 2000/2001 Winter Cost of Gas

Order Approving Revised Cost of Gas

O R D E R    N O.    23,643

February 23, 2001

**APPEARANCES:** McLane, Graf, Raulerson, and Middleton by Steven V. Camerino, Esq. on behalf of EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England; Office of the Consumer Advocate by Kenneth E. Traum on behalf of residential utility consumers; and Larry S. Eckhaus, Esq. for the Staff of the New Hampshire Public Utilities Commission.

**I.    PROCEDURAL HISTORY**

On February 7, 2001, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), a public utility engaged in the business of distributing natural gas in 29 cities and towns in southern and central New Hampshire and the City of Berlin in northern New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) a revised Cost of Gas (COG) for the 2000/2001 winter period (Initial Filing)

An Order of Notice was issued on February 8, 2001. KeySpan informed customers of the impending change by publishing a copy of the Order of Notice in the *Union Leader* on February 12, 2001. The Order of Notice, among other things, required KeySpan to file testimony by February 13, 2001. On February 14, 2001, KeySpan filed a Motion for Protective Order and Confidential Treatment and

the Direct Testimony and supporting attachments of A. Leo Silvestrini, Director of Rates and Regulatory Affairs (Second Filing).

On February 12, 2001, the Office of the Consumer Advocate (OCA) filed a Notice of Intent to Participate in this docket on behalf of residential utility consumers pursuant to the powers and duties granted to the OCA under RSA 363:28,II. There were no other intervenors in this docket.

On February 21, 2001, Staff filed the Direct Testimony of Stephen P. Frink, Assistant Finance Director, recommending approval of a two-month Winter Fuels Surcharge designed to reduce or eliminate the projected under collection of the 2000/2001 winter period gas costs.

On February 22, 2001, KeySpan filed revised schedules using updated information and incorporating Staff's recommendations (Third Filing). A duly noticed hearing on the merits was held at the Commission on February 22, 2001.

## **II. POSITIONS OF THE PARTIES AND STAFF**

### **A. EnergyNorth Natural Gas, Inc.**

The mid-course increase was deemed necessary to reduce a substantial under collection, based on actual and projected gas costs. Using the most current information available as of the hearing date, KeySpan calculated a projected under collection of gas

costs for the 2000/2001 winter period of \$3,931,037, or 8.1% of total projected gas costs.

KeySpan testified that the projected under collection was the result of rapid and unprecedented increases in gas costs over the winter period. KeySpan stated that the monthly increases in the COG rate to the maximum allowable 20% and crediting approximately \$2.2 million in merger-related gas cost savings were not sufficient to avoid an under collection without the proposed rate increase. KeySpan further stated that the approved 2000/2001 winter COG rates were calculated using the opening futures prices as of September 14, 2000, which included prices of \$0.5260 per therm for January 2001 and \$0.4980 per therm for February 2001. The actual natural gas commodity prices were \$0.9978 per therm and \$0.6293 per therm for January and February 2001, respectively. Such drastic price increases were not anticipated and could not be fully recovered through the 20% COG rate increase implemented over the months of December 2000 and January 2001.

The Initial Filing sought to recover the projected under collection through a rate increase over the remainder of the winter period, March 1 through March 31, 2001. In the Second Filing, KeySpan sought to extend the winter period through April 30, 2001 and to recover the projected under collection over the extended winter period, March 1 through April 30, 2001. KeySpan proposed, as part of

the extended winter period, that the Guaranteed Price Protection Plan (GPPP) winter COG rate of \$0.6408 per therm would continue to be charged to the program participants. KeySpan testified that extending the GPPP rate through April 2001 would increase the projected under collection approximately \$425,000, which would be recovered through the proposed rate increase applicable to the non-participants over the extended winter period.

At the hearing, KeySpan, in its Third Filing, proposed using a two-month Winter Fuels Surcharge of \$0.1807 per therm to recover the projected under collection to sales customers not participating in the GPPP. At the February 22, 2001 Revised Winter COG hearing, KeySpan sought Commission approval for application of the proposed surcharge for March 1, 2001 through March 31, 2001 only. KeySpan testified that, in conjunction with its summer 2001 COG filing, filed February 22, 2001, KeySpan would petition for approval of the Winter Fuels Surcharge of \$0.1807 to be applicable for April 1 through April 30, 2001. The April Winter Fuels Surcharge would not be applicable to winter 2000/2001 GPPP customers. KeySpan testified that those customers did not contribute to the winter period under collection.

The average residential heating customer would see an increase in the March 2001 bill of \$30, or 16.1%, if the proposed Winter Fuels Surcharge were to be implemented.

Also included in the Third Filing was a revised Firm Transportation Cost of Gas (FTCOG) rate of \$0.0041 per therm, an increase of \$0.0002 per therm over the current rate of \$0.0039 per therm. KeySpan agreed that the proposed change to the FTCOG rate had not been raised in either of the prior filings and had not, therefore, been included in the public notice.

**B. Staff**

Staff recommended the Commission maintain the current COG rate, \$0.7621 per therm, and approve a two-month Winter Fuels Surcharge of \$0.1807 per therm effective March 1, 2001 through April 30, 2001, not applicable to winter 2000/2001 GPPP customers.

Staff recommended reducing or eliminating the under collection in order to limit carrying costs on the unrecovered balances, to prevent intergenerational subsidies as a result of customers leaving or joining the system and to coincide with the extensive publicity related to the extreme run-up in natural gas prices this winter. Staff expressed the opinion that customers are more likely to understand a rate increase at this time and respond accordingly. Staff recommended the two-month surcharge, rather than recovery over the single remaining winter month, to lessen the rate impact.

Staff testified to concerns regarding cost shifting that might occur if the under collection is not mitigated given the

proposed rate redesign settlement currently pending before the Commission in Docket DG 00-063 and possible revisions to and expansion of the GPPP program for the winter 2001/2002 period. The rate redesign eliminates certain customer classes and creates others, as well as revising the Cost of Gas to include indirect gas costs and class-specific COG rates. While Staff expects any allocation of COG over and under recoveries to be done as fairly as possible, reducing the under collection now would reduce the impact of any misallocation of those costs.

Staff also expressed concern regarding price fluctuations as a result of the rate redesign proposed in a settlement agreement between the parties and Staff and presented to the Commissioners at a hearing on February 8, 2001 in Docket DG 00-063. The settlement agreement calls for rate redesign effective May 1, 2001, and would increase residential heating rates by approximately 6%. Under the settlement agreement, KeySpan seasonal rates would provide for a six month summer and winter rate, as opposed to the current seven month summer and five month winter. Therefore, if the rate redesign settlement agreement is approved, KeySpan's residential heating customers would see the winter delivery rate (first 80 therms) of \$0.3569 per therm reduced to \$0.1558 per therm on April 1, 2001 and increased to \$0.2945 per therm on May 1, 2001. Under the proposed surcharge, those customers would still see the expected,

approximately, \$0.2000 per therm reduction from the winter to summer rates, and would then see a slight reduction in the volumetric charge on May 1, 2001.

Staff testified that the GPPP customers should not be subject to the proposed surcharge, as those customers did not contribute to it. Staff also stated that the GPPP had been nearly fully subscribed for the 2000/2001 winter period at the maximum 20% limit of KeySpan's total therm throughput and KeySpan had denied participation to over 7,000 applicants. Given this winter's demand and the resulting customer savings under the program, it is expected that the program will be greatly expanded for next winter. Carrying forward a large under collection would make the non-GPPP price less attractive and new participants in the GPPP would not be responsible for their share of the COG under collection without revisions to the program. If a portion of the under collection were allocated to the GPPP next year, then this year's GPPP customers that continued in the program for the winter 2001/2002 period would be paying a portion of the under collection for which they were not responsible.

### **III. COMMISSION ANALYSIS**

After careful review of the record in this docket, we find that Staff's proposed two-month Winter Fuels Surcharge of \$0.1807 per therm applicable to firm sales customers, excluding those enrolled in the GPPP program, will result in just and reasonable rates and,

therefore, we will approve the surcharge effective March 1, 2001 through April 30, 2001. As we noted in Order 23,580, "...the costs associated with these rates are reconcilable and subject to continuing investigation" and "they are subject to Staff's investigation of ENGI's GPPP gas purchasing practices and hedging practices".

We are very concerned with the sharp increases in gas prices. The energy market has seen sharply increasing prices at record highs, a fact that has been well publicized throughout the summer and winter months. The Commission went so far as to issue a moratorium on winter shut-offs, effective through March 31, 2001. (See Order No. 23,614 (January 8, 2001), in Docket DM 00-280, *Imposition of Disconnection Moratorium*). Nonetheless, under the COG mechanism, gas utilities should derive no profit from the increase in COG rates and are allowed to pass those costs through to ratepayers on a dollar-for-dollar basis. Traditionally, the Commission has encouraged the utilities to fully recover those costs in the period in which they are incurred, for several reasons: to reduce the ultimate costs customers will be required to pay, as carrying costs are incurred on the deferred balance; to reduce intergenerational subsidies, as customers either migrate to transportation service or leave the system and new customers come on; and to provide customers with the correct price signals that allow them to react accordingly,



by possibly reducing consumption and pricing alternative heating sources. In an attempt to mitigate the rate impact, we have deviated from our policy of seeking full recovery over the current period and will allow recovery over a two-month period, one of which falls in what is now the summer period. With the price uncertainty for next winter, there is no assurance that deferring recovery will result in any less of a rate impact. The elimination or reduction of the projected under recovery will also limit possible cost shifts due to any rate redesign or revisions to the GPPP, which may occur. However, our decision in this proceeding should not be deemed to be a decision regarding rate redesign in Docket DG 00-063, or any modification of the GPPP. Both KeySpan and Staff witnesses agreed that the proposed Winter Fuels Surcharge should be implemented regardless of the Commission's decision in Docket DG 00-063.

We also agree with KeySpan and Staff that the GPPP did not contribute to the COG under collection. Supplies to serve those customers were either purchased prior to the season or contracted for at a fixed price throughout the winter period. Any under collection that may have resulted due to weather variances would have been more than offset by the margins earned on Interruptible Transportation and 280 Day Customers, capacity release revenues and merger gas cost savings that are not credited to the GPPP customers. Accordingly, the 2000/2001 winter GPPP customers will be exempt from the Winter

Fuels Surcharge.

Lastly, we deny KeySpan's proposed change to the FTCOG rate, contained only in its Third Filing on the day of the hearing, as the proposal was not timely, and consequently, not properly noticed. We are similarly disturbed by the numerous errors in the filings as well as the multiple and incomplete nature of several of the filings. KeySpan is cautioned that future filings that do not comply with Commission rules may not be accepted.

**Based upon the foregoing, it is hereby**

**ORDERED**, that KeySpan's proposed Firm Transportation Cost of Gas rate increase from \$0.0039 per therm to \$0.0041 per therm, effective March 1, 2001, is DENIED; and it is

**FURTHER ORDERED**, that KeySpan's currently effective Firm Sales Winter COG rate of \$0.7621 per therm shall continue for the period of March 1, 2001 through March 31, 2001; and it is

**FURTHER ORDERED**, that KeySpan's projected under recovery of gas costs for the 2000/2001 Winter period shall be recovered through a Winter Fuels Surcharge of \$0.1807 per therm for the period March 1, 2001 through April 30, 2001, and included in the COG rate with an annotation on the customer's bill; and it is

**FURTHER ORDERED,** that the over or under collection shall accrue interest at the Prime Rate as reported in the Wall Street Journal. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

**FURTHER ORDERED,** that KeySpan shall file its reconciliation of the prior period under/over collection no later than July 31, 2001 for the winter period; and it is

**FURTHER ORDERED,** that KeySpan shall file a reconciliation of any under/over collection associated with the GPPP no later than July 31, 2001; and it is

**FURTHER ORDERED,** that KeySpan file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New  
Hampshire this twenty-third day of February, 2001.

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Douglas L. Patch  
Chairman

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Nancy Brockway  
Commissioner

Attested by:

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Claire D. DiCicco  
Assistant Secretary